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A Fairer London: The Living Wage in London (2007)

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A FAIRER LONDON: THE LIVING WAGE IN LONDON (2007)

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ABSTRACT

This is an archival version, for scholarly purposes, of the report of the same name that the authors produced for the GLA in 2007. At the time of this deposition, this can be found at http://legacy.london.gov.uk/mayor/economic_unit/docs/a_fairer_london_2007apr.pdf. It should be cited as Freeman, A. and Veruete-McKay, L. 2007. *A Fairer Wage: the Living Wage in London* (2007). London: Greater London Authority Living Wage Unit. All disclaimers in that version apply.

I have not always been able to provide up-to-date links to the cited texts or data sources. In those cases where this is not possible, and where the link is broken, I have generally removed it as superfluous, retaining as much information in the title of the publication as is possible, in the hope that this will be enough for future researchers to track down the sources where required.

This was the third of a series of annual reports on the Living Wage in London, each of which updates the level of the Living Wage using the methodology set out in 2005 (See Freeman and Veruete-McKay 2005a) and provides additional data on its impact and implementation.

The Living Wage reports are supplemented by additional information on employment and poverty in London which can be found at the GLA Economics website, at the time of deposition being <http://www.london.gov.uk/priorities/business-economy/publications/gla-economics>

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A FAIRER LONDON: THE LIVING WAGE IN LONDON (2007)

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MAYORAL FOREWORD

London's economic success and its growing influence as a global economic and business centre seem to be discussed by commentators on a daily basis. Almost all focus on the human factors - the existence of a skilled workforce - as being central, and by this most mean highly paid professional staff. Few look at those who provide the day-to-day support services on which we all depend, and without whom our capital's spectacular success would be literally impossible. We need their skill and motivation too, and key to this is expressing that need through the amount they are paid.

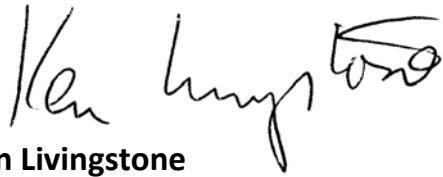
It is against this background that I am glad to welcome publication of the Living Wage Unit's Third Annual Report. The release of these reports has become a widely-awaited annual event, and I am pleased at the extent to which they are more and more informing and supporting real change in London's economy. Further practical action is being taken by the public and private sectors to tackle the issues raised in these reports, and addressing these issues is increasingly seen to make business sense. Perhaps the most important sign of the practical importance of this work is that the London Living Wage is being used by trades unions and employers in wage negotiations.

As in previous years, this report takes a systematic approach to identifying what is a living wage in London. It shows how someone paid less than about £6.25 an hour will be on the threshold of poverty, even after benefits and tax credits are taken into account. This means that in London, largely because of housing costs, you need an hourly wage rate almost 20 per cent above the National Minimum Wage (NMW) rate of £5.35 just to take you above the poverty level. However this provides no margin to meet the kind of day-to-day challenges those of us who are better off can afford to shrug off. As before, a margin of 15 per cent has therefore been added to the poverty threshold wage. The result is a London Living Wage of £7.20 per hour - an increase of 2.1 per cent on last year's figure and a 7.5 per cent increase in the two years since its introduction. About one in seven of London's full-time workers and almost half of our part-time workers are paid at a rate below this Living Wage. These figures give some idea of the scale of the challenge facing us.

This report goes further. It shows what we are doing in the GLA Group to make sure that as far as we can we use our power as employers and procurers of goods and services to make sure the living wage issue is addressed, making a real difference to hundreds of people. It also highlights what has been possible by working with others, for example in the recent announcement by the Olympic Delivery Authority of their support for the London Living Wage, their intention to encourage contractors to pay fair wages and a commitment to monitor performance.

Our living wage work has consistently made clear the central importance of the availability and cost of childcare - this year, childcare costs have increased by 7 per cent. Making progress on childcare is one of the most important practical steps that can be taken to improve the situation of many of those on low pay, and this is why I am committed to ensuring, through delivery of a Childcare Affordability Programme, that up to 10,000 families are helped to access affordable and flexible childcare across London by 2008. This is an area that needs further action and research, and I am pleased that the Living Wage Unit will continue to refine the data on this aspect.

I started by pointing out that among the crucial keystones of London's success are its people and their skills. To sustain that success we have to value these key assets, and develop them. We cannot do this if those in work are paid less than they need to avoid poverty. There is no low value option for the London economy, and the wages paid to Londoners must reflect this reality.

A handwritten signature in black ink that reads "Ken Livingstone". The signature is written in a cursive style with a prominent loop at the end of the word "Livingstone".

Ken Livingstone

Mayor of London

EXECUTIVE SUMMARY

This is the third annual report from a programme of research by the Living Wage Unit into issues related to the Living Wage and poverty in London. It presents an update of the Living Wage in the capital and looks at what threshold might be considered as constituting poverty level wages in London.

This report includes an update of the main steps, which the GLA group has taken to implement the Living Wage since last year's report was published. It also presents a discussion of the likely future impact on childcare costs following implementation of the Mayor's London Childcare Strategy (GLA 2003) by the London Development Agency.

Two main approaches to calculate a living wage are considered. One approach, developed by the Family Budget Unit, estimates the costs of a 'Low Cost but Acceptable' (LCA) budget for a selection of typical or model families and calculates the wage required to meet those costs. This is termed the Basic Living Costs approach. The other is based on the distribution of income and will therefore be termed the Income Distribution approach.

A Living Wage in London has been calculated in two stages. First a 'poverty threshold wage' has been calculated. This has been done by two methods. The Basic Living Costs approach yields a figure of £6.15 per hour for London. The level defined by the Income Distribution approach takes 60 per cent of median income as defining a poverty level wage – for London this yields a figure of £6.35. The poverty threshold wage used in this report is the average of the two figures, £6.25.

The £6.25 figure however is a poverty threshold wage. A Living Wage must yield a secure margin ensuring that the person involved does not fall to the level of poverty wages. To achieve this a figure of 15 per cent has been added to the poverty level wage. This yields a figure, when rounded to the nearest five pence, of £7.20 per hour as a Living Wage for London. If means-tested benefits were not taken into account (that is, not including tax credits, housing benefits or council tax benefits) the equivalent Living Wage figure would be approximately £9.15 per hour. This report, however, considers that benefits and tax credits must be taken into account, as part of the aim of the tax and benefit system is to redistribute income to the least well off sections of society while not providing disincentives to securing employment. The figure put forward for a Living Wage in London is therefore £7.20 per hour. This figure will be implemented in the GLA Group as contracts allow from the start of the 2007/08 financial year in April 2007.

Data from the Annual Population Survey (APS) for 2005 suggests that around 86 per cent of full-time employees in London receive more than the Living Wage of £7.20. Around 5 per cent of full-time workers in London receive wages that are below Living Wage levels but above poverty threshold levels. A further 9 per cent of full-time employees in London receive wages that are below poverty level wages. Further, about 54 per cent of part-time workers in London receive more than a Living Wage. Around 11 per cent of part-time employees in the capital receive less than the Living Wage but more than poverty level wages. Finally, 35 per cent of part-time workers receive less than poverty threshold wages. Altogether around one in seven employees in London receive less than poverty level wages and almost one in four receive less than the Living Wage. The fact that poverty level wages in London are significantly above the National Minimum Wage (NMW), at £5.35 per hour, is primarily due to much higher housing costs in London.

1. INTRODUCTION

In furtherance of the Mayor's policy priority highlighted in his 2004 election manifesto, this, the third annual report on the Living Wage in London, updates the Living Wage in London for 2007.

This report reviews the most recent steps being taken to implement the Living Wage since the last report in the GLA group. It outlines the two main approaches that can be used to help determine a Living Wage for London: the Basic Living Costs approach and the Income Distribution approach.

In the previous two annual reports, the Living Wage Unit also calculated the Youth Living Wage in the capital. However, on 1 October 2006, the new Employment Equality (Age) Regulations came into force, implementing the age strand of the European Employment Directive 2000/78/EC. The Regulations outlaw unjustified age discrimination in employment and vocational training, including pay and pensions. Given the Youth Living Wage policy could fall foul of its provisions, it was decided that the GLA would discontinue the publication of a Youth Living Wage.

1.1 STRUCTURE

In what follows, the Basic Living Costs approach is outlined and the wage rates that result from that approach are illustrated in Chapter 2. Chapter 3 describes the Income Distribution approach and presents the wage levels suggested by this method. The results from the two approaches are then compared in Chapter 4. A review of the implementation of the London Living Wage within the GLA Group is presented in Chapter 5. Chapter 6 assesses the potential impacts on childcare costs in London following the implementation of the Childcare Affordability Programme. Chapter 7 concludes. Finally, a series of appendices provide more information on the living cost calculations.

2. BASIC LIVING COSTS APPROACH

This section explains briefly the Basic Living Costs approach that was developed by the Family Budget Unit (FBU). The FBU calculated the expenditure required to achieve what it defines as a *Low Cost but Acceptable* (LCA) standard of living, for a range of 'typical' families.

¹ Depending on the working patterns of the different family types, this expenditure, or budget, can be converted into a wage level.

This wage level is not the same as a minimum wage. It is defined by the FBU as a wage that achieves an adequate level of warmth and shelter, a healthy palatable diet, social integration and avoidance of chronic stress for earners and their dependents (Parker 1998) More

¹ The LCA budget standard was produced following work in 1997/98 by the FBU then based in the Department of Nutrition and Dietetics at King's College London. The funding for the work was raised by the Zacchaeus 2000 Trust. The work was based on two model families – a two adult household with two children aged ten and four and a one adult household with two children aged ten and four. The first study was carried out in York with later studies being carried out in East London, Swansea and Brighton.

details were provided in the first Living Wage report published in April 2005 (Freeman and Veruete-McKay 2005a). In this section we assess changes in the costs that feed into this approach, over the past 12 months.

2.1 HOUSEHOLD TYPES AND WORKING PATTERNS

As in last year's report, basic living costs (also called the LCA budget) estimates were based on four model families:

- a two adult household with two children aged ten and four
- a one adult household with two children aged ten and four
- a couple without children
- a single person without children.

The same range of different household working patterns (for example, a lone parent working full-time or a couple with one person working full-time) is considered as in last year's report. This part of the report therefore provides an indication of the extent to which the cost of living in London has risen as a result of changes in the prices of the goods and services that make up the FBU's Family Budget, and the effect this has on the wage needed for each of these different types of family to attain the poverty threshold wage.

The range of household working patterns assumed is also the same as that outlined in last year's report on the Living Wage. Working patterns are important for the calculation of tax credits and benefits received by households. Assuming the same patterns improves the comparability of this year's living costs estimates with last year's. In this report we provide calculations of the Living Wage, both including and excluding means-tested benefits and tax credits.

As in the last report, families containing one employed part-time earner only are not considered in estimating the Living Wage. However, information on lone parents working part-time is included in this report, as last year, even though such families do not enter the calculation of the Living Wage. This is principally because it provides information relevant to the Government's attempts to assist lone parents back into work.

2.2 COSTS

Basic living costs are considered under the following headings:

- Housing
- Council tax
- Transport
- Childcare
- All other costs (a 'regular shopping basket').

For the first four items above, cost estimates are based on direct data for London. For the fifth item, we used a comparison of regional price differentials produced by the Office for National Statistics (ONS 2004). However, no update to these regional price comparisons has been provided by ONS since our last report. We have therefore updated London costs by

assuming that each element in the shopping basket has increased in price by the same proportion as for the whole of the UK.²

HOUSING COSTS

We followed the same methodology outlined in the Annual Living Wage Report of 2005, to derive housing costs for the different type of families considered. However, we considered additional data to validate our previous housing estimates.

Table 2.1 provides GLA Economics' estimates of basic living costs for the four types of families considered in London. Details of the cost calculations are supplied in Appendix A.

TABLE 2.1. BASIC LIVING COSTS (OR LCA BUDGET) FOR TYPICAL FAMILIES LIVING IN LONDON (£ PER WEEK 2005)

	Couple				Single parent		Single no children	
	2ft	1ft 1pt	1ft	1pt	ft	pt	ft	pt
Shopping basket costs	183.52	183.52	183.52	183.52	139.63	139.63	83.04	83.04
Housing	84.00	84.00	84.00	84.00	84.00	84.00	79.00	79.00
Council Tax	23.35	23.35	23.35	23.35	17.51	17.51	17.51	17.51
Total Transport Costs	48.60	48.60	24.30	24.30	24.30	24.30	24.30	24.30
Childcare Costs	203.72	98.09	0.00	0.00	203.72	98.09	0.00	0.00
Total Costs	543.18	437.55	315.17	315.17	469.16	363.53	203.85	203.85

Notes: ft= full-time and pt= part-time

Source: GLA Economics based on various data sources; see Appendix A

TABLE 2.2. ANNUAL PERCENTAGE CHANGE IN LCA COSTS BETWEEN THE 2005 AND 2006 LIVING WAGE REPORTS

	Couple with children				Lone Parent		Single person	
	Two earners		One earner		ft	pt	ft	pt
	2ft	1ft 1pt	ft	pt				
Shopping basket costs	1.91	1.91	1.91	1.91	1.96	1.96	2.71	2.71
Housing	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00

² Details of the calculation, including changes in the prices of individual goods and services within the basket and their impact on living costs, are given in Appendix A.

Council tax	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.47
Transport	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Childcare	7.02	7.02	0.00	0.00	7.02	7.02	0.00	0.00
Total LCA costs	4.68	4.13	3.17	3.17	4.93	4.34	2.10	2.10

Source: GLA Economics' own calculations based on various datasets

Table 2.2 indicates that total LCA costs rose for all the different families considered. Lone parents with children (working full-time) experienced the highest increase in LCA costs (4.9 per cent) and couples with two full-time earners (4.7 per cent). Childcare costs experienced the highest increases (7 per cent). However transport costs, housing and council tax also increased by around 5 per cent since last year's report. Shopping basket costs remained relatively stable despite increases in the cost of clothing, food and leisure goods. For a detailed explanation of these changes please refer to Appendix A.

2.3 EARNINGS AND HOUSEHOLD INCOMES

The level of earnings together with household circumstances will affect the amount of various benefits and tax credits that are payable. Working tax credit, child tax credit, child benefit, housing benefit and council tax benefit are the main tax credits and benefits considered in this report. Of these, only child benefit is not means-tested. Some benefits depend on childcare and housing rental costs. A detailed explanation of the methodology used to derive these benefits and tax credits can be found in the 2005 Annual Report (Freeman and Veruete-McKay 2005a).

Appendices B and C provide more information on the various tax credits and benefits and how they fit into these calculations.

Table 2.3 illustrates the disposable income for the various different household types, assuming different working patterns, with earnings at the level of the NMW (£5.35).³ In all calculations that follow, a full-time worker is assumed to work 38.5 hours a week and a part-time worker 17 hours. This follows the assumptions used in the initial FBU work.

TABLE 2.3 INCOME FOR DIFFERENT HOUSEHOLDS, INCLUDING AND EXCLUDING MEANS-TESTED BENEFITS (£ WEEKLY FIGURES), AT THE NMW

	Couple with two children			Lone parent		Couple with no children			Single no children
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft
Joint earnings at £5.35 per hour	412.0	296.9	206.0	206.0	91.0	412.0	296.9	206.0	206.0

³ Following the Low Pay Commission's recommendations, the NMW (adult rate) is currently set at £5.35 an hour. In March 2006, the Government announced that the NMW (adult rate) would be £5.35 from October 2006. The youth rate, for workers aged between 18 and 21, is currently £4.45.

Taxes	59.3	29.7	29.7	29.7	0.0	59.3	29.7	29.7	29.7
Earnings net of taxes	352.6	267.3	176.3	176.3	91.0	352.6	267.3	176.3	176.3
Including all relevant benefits									
All relevant benefits	236.1	194.2	173.7	312.3	254.3	0.0	24.3	95.2	20.1
Total income	588.8	461.4	350.0	488.7	345.3	352.6	291.5	271.5	196.4
Excluding means-tested benefits									
Child benefit	30.2	30.2	30.2	30.2	30.2	0.0	0.0	0.0	0.0
Total income	382.8	297.5	206.5	206.5	121.2	352.6	267.3	176.3	176.3

Notes: ft= full-time and pt= full-time

All figures reported to one decimal place (or ten pence)

Source: GLA Economics' own calculations

Table 2.4 shows the basic living costs, or LCA budget standard, for the various household types together with the weekly income derived at the NMW level (from Table 2.3). Appendix C illustrates the difference between income and basic living costs (the LCA budget standard) at £5.35, £6, £7 and £8 per hour.

TABLE 2.4 WEEKLY INCOMES, COSTS AND INCOMES AFTER COSTS, AT THE NMW HOURLY RATE

	Couple with two children			Lone parent		Couple with no children			Single no children
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft
Including all relevant benefits									
Total income	588.8	461.4	350.0	488.7	345.3	352.6	291.5	271.5	196.4
Basic living costs	543.2	437.6	315.2	469.2	363.5	332.1	332.1	307.8	203.9
Income minus costs	45.6	23.9	34.9	19.5	-18.2	20.6	-40.5	-36.3	-7.5
Excluding means tested benefits									
Total income	382.8	297.5	206.5	206.5	121.2	352.6	267.3	176.3	176.3
Basic living costs	543.2	437.6	315.2	469.2	363.5	332.1	332.1	307.8	203.9
Income minus costs	-160.4	-140.1	-108.7	-262.6	-242.4	20.6	-64.8	-131.5	-27.5

Notes: ft=full-time and pt=part-time

Source: GLA Economics' own calculations

For some household types, the NMW together with the assumed working patterns are sufficient to cover their weekly basic living costs (assuming all relevant tax credits and benefits are claimed). However, Table 2.4 also illustrates that for other household groups the NMW is not sufficient to cover basic living costs.

Using basic living costs as a target income level, it is possible (through iteration of the tax and benefit model established for this exercise) to calculate the wage required for each household to cover its basic living costs. Table 2.5 shows the hourly wage required for each household type to meet its basic living costs (or LCA budget).

TABLE 2.5 HOURLY WAGE REQUIRED TO MEET BASIC LIVING COSTS FOR DIFFERENT HOUSEHOLDS

Earnings	Couple with two children			Lone parent		Couple with no children			Single no children	Weighted Average
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft	
Number of people ('000s)	455	364	173	75	42	425	340	162	802	
Wage level including all the relevant benefits	5.35*	5.35*	5.35*	5.35*	7.5	5.35*	7.0	10.5	6.4	6.15
Wage level excluding means tested benefits	8.5	8.9	9.6	>15	>15	5.35*	7.0	10.5	6.4	7.75

Notes: ft=full-time and pt=part-time

* NMW sufficient to meet basic living costs (LCA budget standard)

The number of people in different household groups was derived from Census 2001

All figures rounded to 1 decimal place (or 10 pence)

The NMW (of £5.35) has been used as a lower limit for the wage when calculating the weighted average wage as it is generally illegal to pay wages below the NMW.

From Table 2.5, the weighted average wage required to meet basic living costs is £6.15 assuming all benefits are claimed, compared to £7.75 if means-tested benefits are not claimed.

Assuming all relevant benefits and tax credits are claimed, more than half of the working households considered in this analysis (52 per cent) would achieve their basic living costs, or LCA standard of living, at the NMW. At the wage of £6.25 per hour around 80 per cent of the working households considered would achieve their basic living costs (or LCA standard of living).

3. THE INCOME DISTRIBUTION APPROACH

The previous section discussed the Basic Living Costs approach to estimating what a Living Wage might be. This section explains briefly the Income Distribution approach. This method considers what wage is required to move a household to 60 per cent of median income.

The Department for Work and Pensions (DWP 2006) provides indicators on the average income of households in the UK. This measure uses household disposable incomes, adjusted for household size and composition, as a proxy for material living standards or, more precisely, for the level of consumption of goods and services that people could attain given the disposable income of the household in which they live (DWP 2006: Appendix 2).

DWP provides two measures of disposable income: before and after housing costs. This report only considers the disposable income after housing costs. Disposable income after housing costs consists of earnings, all social security benefits (including housing and council tax benefits), pensions, maintenance payments, educational grants, and cash value of payments in kind such as free school meals for all members of the household less income tax (including national insurance, pension contributions) and maintenance or support payments made to people outside the household. Rent, mortgage interest payments, water charges and structural insurance premiums, are deducted from income on this measure.⁴

Based on this measure, household median income in 2004/05 was £304 per week. This figure is for a household consisting of a couple with no children. DWP provide details of the process by which to calculate equivalent incomes for other household types. Details of this process (called 'equivalisation'), and the Income Distribution approach more generally are discussed in Appendix E of the 2005 Living Wage report.

Using the equivalisation process, incomes for the various household types considered earlier have been calculated. Table 3.1 illustrates the median income and different percentages of median income for the different household types.

Given these income levels and using the same tax and benefit model as in the previous section, wages that achieve the different households' disposable income can be approximated.

**TABLE 3.1 DISPOSABLE INCOME THRESHOLDS FOR DIFFERENT TYPES OF HOUSEHOLDS
(£ PER WEEK, 2004/05)**

	Couple with children	Lone parents with children	Couple with no children	Single person with no children
Median	428.64	291.84	304.00	167.20
70% of median	300.05	204.29	212.80	117.04
65% of median	278.62	189.70	197.6	108.68
60% of median	257.18	175.10	182.40	100.32

⁴ It should be noted that this measure does not take into account childcare costs.

Source: GLA Economics based on DWP data for 2004/05

Table 3.2 shows the approximate hourly wage required to achieve the level of disposable income that would place each household at 60, 65 and 70 per cent of median income (both including and excluding benefits). The Government's poverty threshold is 60 per cent of median income. Hence, we focus on the wage required to meet this income level.

TABLE 3.2 APPROXIMATE HOURLY WAGE REQUIRED TO REACH A CERTAIN PERCENTAGE OF MEDIAN INCOME FOR DIFFERENT HOUSEHOLDS

	Couple with two children			Lone parent		Couple with no children			Single no children	Weighted Average
	2ft	1 ft 1pt	1ft	ft	pt	2ft	1ft 1pt	1ft	ft	
Earners										
Including all relevant benefits										
60% of median income	5.35*	5.4	8.7	5.35*	9.0	5.4	7.6	12.3	5.6	6.35
65% of median income	5.4	6.6	10.6	5.9	11.8	5.7	8.0	12.9	6.5	7.05
70% of median income	6.3	7.7	12.4	7.2	14.7	6.0	8.3	13.5	6.8	7.75
Excluding means-tested benefits										
60% of median income	8.9	9.6	11.5	>15	>15	5.4	7.6	12.3	6.1	8.15
65% of median income	9.4	10.1	12.3	>15	>15	5.7	8.0	12.9	6.5	8.55
70% of median income	9.8	10.7	13.1	>15	>15	6.0	8.3	13.5	6.8	8.95
Memo: numbers of people in London that would attain 60% of median income at various wage levels										
Total number of people of this family type ('000)	455	364	173	75	42	425	340	162	802	2838
Number which would attain 60% of median income at a wage of:										
£5.35	455	0	0	75	0	0	0	0	0	530
£6.35	455	364	0	75	0	425	0	0	802	2121

Notes: ft=full-time and pt=part-time

* The NMW is sufficient to meet the 60 per cent of median income threshold

The NMW (of £5.35) has been used as a lower limit for the wage when calculating the weighted average wage

All figures rounded to one decimal place (or 10 pence)

Source: GLA Economics. The number of people in different household groups was derived from Census 2001

Table 3.2 also illustrates that less than 20 per cent of the working households considered here would attain 60 per cent of median income at the NMW (assuming all relevant benefits were claimed). The weighted average wage (assuming all relevant benefits are claimed)

required to achieve 60 per cent of median income is around £6.35. At this wage almost three quarters of the households considered would achieve the 60 per cent median income threshold.

4. COMPARISON OF APPROACHES AND THE WAGE DISTRIBUTION

This section compares the results of the two approaches outlined previously and then looks at the wage distribution in London to see what proportion of the working population in London would be affected by a living wage if adopted across London.

The Basic Living Costs and Income Distribution approaches find that at the NMW, assuming all relevant benefits and tax credits are claimed, more than half of the households considered in this analysis would cover their basic living costs, and almost 20 per cent would attain 60 per cent of median income.⁵

Table 4.1 displays the weighted average wages derived from the two approaches considered, including and excluding means-tested benefits. The weighted average wage (including benefits) from the Basic Living Costs approach is £6.15 per hour compared to £6.35 from the Income Distribution approach. The two approaches deviate somewhat in producing the wage required to move above or at least to, the poverty threshold. It should be noted that this 20 pence difference is smaller than last year's of 30 pence.

TABLE 4.1. WEIGHTED AVERAGE WAGE (£ PER HOUR)

Approach	Including benefits	Excluding benefits
Basic living costs (1)	6.15	7.75
Income distribution (60%) (2)	6.35	8.15
Average of (1) and (2)	6.25	7.95

Source: GLA Economics

Notes: All figures rounded to nearest five pence.

Taking the average of these two derived figures yields a wage of £6.25, when including benefits. It indicates that a wage of around £6.25 allows most households, on average, to move above, or at least to, what might be considered the poverty threshold. Increasing the wage above this level increases a household's disposable income net of basic living costs and moves them closer to median income. Once the 15 per cent margin against poverty is added to £6.25 per hour, this yields a Living Wage, to the nearest five pence, of £7.20 per hour.

⁵ It should be noted that similar results have been found in other studies using the Basic Living Costs (LCA) approach. For instance, a study in Brighton in 2003 found that assuming the three household types considered in that study claimed all relevant benefits and tax credits, the NMW was sufficient to cover basic living costs. See LCA (2003).

This figure for the 2007 level of the London Living Wage will be implemented in the GLA Group as contracts allow from the start of the 2007/08 financial year in April 2007.

The next section looks at the wage distribution in London to see what proportion of the working population in London would be affected at these wage levels (assuming the wage was implemented across London).

4.1 WAGE DISTRIBUTION

There are two main sources of information on earnings in the UK, the Annual Survey of Hours and Earnings (ASHE) and the annual Labour Force Survey (LFS) now the Annual Population Survey (APS). In previous annual reports we have determined the proportions of employees in London earning less than different earnings thresholds using only the APS data. We have noted before that the measurement of the distribution of hourly pay is not a simple matter and that the LFS/APS data is an imperfect guide to it, particularly at the bottom end of the earnings distribution.

The Office for National Statistics (ONS) advice is that the ASHE data is the best source for measuring low pay.⁶ However, the Living Wage Unit does not have access to the most recent ASHE dataset, and thus we can only use figures from the APS in this report.

WHO ARE AFFECTED AT THE CURRENT LONDON LIVING WAGE?

As the Living Wage Unit does not currently have access to the full ASHE dataset, we use the APS 2005 data, to determine the proportion of London employees earning less than £7.20 per hour and other threshold earnings.

Table 4.2 shows that around 14 per cent of full-time employees and 46 per cent of part-time employees earn less than the Living Wage of £7.20 per hour in London. It should be noted that estimating the proportion of London employees earning less than the London Living Wage using APS data for 2005 could lead to an overestimate. This is because employees are likely to have received an increase in their pay since 2005 and for some this will have taken them to a pay rate above £7.20 per hour.

⁶ The Living Wage Unit undertook analysis of the 2005 ASHE data for London in GLA Economics' Current Issues Note 14: Patterns of low pay in London. Author's Note: This was subsequently replaced by Current issues Note 22 (Melville and Harker 2008)

TABLE 4.2. PROPORTION OF EMPLOYEES IN LONDON THAT EARN LESS THAN VARIOUS WAGE LEVELS

	MALES	FEMALES	TOTAL EMPLOYEES
	%	%	%
FULL-TIME EARNING			
< £5.35 PER HOUR	4.8	6.0	5.3
< £7.05 PER HOUR	12.0	15.3	13.4
<£7.20 PER HOUR	12.8	16.1	14.2
PART-TIME EARNING			
< £5.35 PER HOUR	32.9	18.5	22.1
< £7.05 PER HOUR	55.3	40.2	44.0
<£7.20 PER HOUR	58.4	42.3	46.3

Source: Annual Population Survey (APS) 2005.

Note: The figures are for the working age population including full-time students. The proportions are calculated using the number of employees earning less than the different earnings thresholds over the number of London employees (reporting earnings).

4.2 CHANGES FROM LAST YEAR'S REPORT

The Living Wage has increased by 2.1 per cent since last year's report, to £7.20 per hour and by 7.5 per cent since 2005. This is due to a combination of two factors; general inflation over this period and a modest increase of 2 per cent in household median income. Large increases in fuel costs (11 per cent) and NHS charges (6 per cent) have been offset by price falls for clothing and leisure goods (both down by 3 per cent). Also increases in childcare and transport costs and council tax brought up average costs for the different types of families considered by almost 2 per cent. In addition, benefits and tax credits were increased by 3.6 per cent between the financial years 2006/07 and 2007/08. This compares with a 2.7 per cent increase in benefits and tax credits between 2005/06 and 2006/07. As a result, benefits and tax credits have done 'more of the work' in getting us to our target standard of living than in the previous year, and this has moderated the required increase in wages.

5. TAKING FORWARD IMPLEMENTATION OF THE LONDON LIVING WAGE IN THE GLA GROUP

The London Living Wage is being implemented through a phased roll out across the GLA group. It is being taken forward as one aspect of the wider GLA Group Sustainable Procurement Policy that has been signed up to by all GLA Group organisations and the Metropolitan Police Service, and is being promoted by the Mayor. The Sustainable Procurement Policy addresses the delivery of economic, social and environmental objectives through procurement strategies and processes.

Each GLA Group organisation has engaged appropriate staff and financial resources to drive this policy forward and implement sustainable procurement delivery. A director-level steering group, chaired by the Mayor's Director for Equalities and Policing, has been meeting throughout 2006 to co-ordinate plans. An early focus of co-ordinated activity has been the production of quarterly contract calendars which ensure that potential opportunities for implementing the Living Wage (and other sustainable procurement priorities) through future GLA Group contracts are being identified. This process also will help form the basis for on-going monitoring of GLA contracts.

An emphasis of the Living Wage implementation programme has been to achieve early and large-scale policy impact. Transport for London's (TfL) substantial procurement programme has continued to provide the greatest potential for implementation throughout 2006. Significant opportunities have also arisen in the London Development Agency and the GLA itself. Whilst it is inevitable that there is a lag as new Living Wage figures are incorporated into new contracts, the latest Living Wage figure is being taken into account as new GLA Group contracts are let.

On 1 October 2006, the new Employment Equality (Age) Regulations came in to force, implementing the age strand of the European Employment Directive 2000/78/EC. The Regulations outlaw unjustified age discrimination in employment and vocational training, including pay and pensions. To avoid any possibility of the Youth Living Wage policy falling foul of its provisions, it was decided that the GLA would discontinue the publication of a Youth Living Wage.

GLA GROUP IMPLEMENTATION

Progress in implementing the London Living Wage during the year has included:

- All City Hall cleaners' wages raised to the Living Wage
- All MPS industrial catering staff wages raised to above the London Living Wage.
- Letting by TfL of a new bus station cleaning contract on 1 October 2006 taking 69 cleaners' wages to the Living Wage
- Letting by TfL's Victoria Coach Station of a new Cleaning and Toilet Attendant services contract in January 2007 which included a phased introduction of London Living Wage during the first year of the contract. This will impact approximately 42 staff.
- Contract requirement placed on the contractor to apply the London Living Wage to staff working in the GLA's Trafalgar Square Café.
- Placement by the LDA of tier 1 and tier 2 contracts for Demolition and Remediation (in preparation of land to be handed over to the Olympic Delivery Authority (ODA) for the Olympics) which include an obligation on the contractor to comply with the fair employment policies (including the London Living Wage).
- Contractual obligation to incorporate the Living Wage in the areas of security, cleaning and catering placed by the LDA on the managed service

provider of its new offices at Palestra, Blackfriars Road. The Living Wage came into effect for this group of staff in September 2006, at the start of LDA's service contract.

- Review of waste, cleaning and catering contracts by LFEPA to include provision for the application of the Living Wage

Alongside this implementation work within the GLA Group, we have provided updates on progress to interested agencies, to help promote the Living Wage more widely. In particular, the Mayor has promoted the use of the London Living Wage within London's Olympics and Paralympic Games programmes. The ODA has confirmed its support for the London Living Wage for contracts carried out within London's boundaries, that it will encourage its contractors to pay fair wages and that it will monitor implementation. The ODA expects to publish its first monitoring report on its contractors' performance, including paying the London Living Wage, in quarter one of 2008.

The Living Wage has also become increasingly implemented in the London labour market. A range of companies and other organisations have agreed to use the London Living Wage figure as a guide for the pay of their employees and, or the pay of employees engaged in contracted in services, such as cleaners, in London. These companies and organisations include; HSBC, Morgan Stanley, Lehman Brothers, Citigroup, Deutsche Bank, Royal Bank of Scotland, KPMG, PriceWaterhouseCoopers, Lovells, Credit Suisse, Macquarie, Queen Mary University of London, the London School of Economics, the Big Issue Company, UnLtd*, the Child Poverty Action Group, ACEVO and the Institute for Public Policy Research.

6. CHILDCARE

Since the implementation of the Mayor's London Childcare Strategy (GLA 2003), through the Childcare Affordability Programme (CAP) there have been changes in childcare provision in the capital. This section reviews the main developments and discusses the potential impacts on childcare costs in London.

IMPACTS ON CHILDCARE COSTS IN LONDON FOLLOWING THE IMPLEMENTATION OF THE CHILDCARE AFFORDABILITY PROGRAMME (CAP)

The Mayor's London Childcare Strategy was developed to increase the availability of quality childcare provision in London and to make it more affordable for parents. On behalf of the Mayor of London, the London Development Agency (LDA) is responsible for delivering this childcare strategy. The LDA set up a pilot programme for London, the Childcare Affordability Programme (CAP), in 2005, to improve access to high quality childcare, funded jointly with the Department for Education and Skills (see GLA 2003).

WHAT THE LDA PROGRAMME MEANS?

CAP is a large childcare investment programme that will be delivered from 2005-2008 across London boroughs. The CAP subsidises a range of childcare places in London to make them more affordable for lower income families, to enable parents to remain in, or return to, full or part-time work.

NUMBER OF CHILDCARE PLACES CREATED

It is expected that by 2008, CAP will have assisted up to 10,000 families to access affordable and flexible childcare places through approved childcare providers.⁷

TYPE OF PROVISION OF CHILDCARE

The first phase of the programme subsidises the cost of full day care places and reduces the cost of flexible hours of childcare;

The second phase addresses wider problems of affordability and parental access to childcare, including access for children with special needs and disabilities and support for parents in the transition to employment.

Full day care consists of childcare provision for five days in a week for at least six hours a day for at least 48 weeks in the year.

Flexible childcare provides for different numbers of hours in the day and/or sessions in the week. This type of provision is normally either only available at the full time rate or at a higher pro-rata cost. The LDA is also ensuring that flexible provision becomes more available for eligible parents in the capital.

For full day care provision, CAP subsidises places for eligible parents to bring down the cost to £175 per week (for one child). This is the maximum amount eligible for the childcare element of the Working Tax Credit. Parents can claim up to 80 per cent of this amount in childcare tax credits, i.e., £140 per week.

POTENTIAL IMPACTS ON CHILDCARE COSTS IN LONDON

The implementation of the Mayor's London Childcare Strategy has helped to increase the number of subsidised childcare places, making childcare more affordable for some London parents with low incomes. However, the Living Wage Unit expects overall childcare costs to increase in the near future for two main reasons. First, the demand for part-time provision has become more popular, which tends to be more expensive per hour than the hourly rate paid for full day care type provision. Second, as long as difficulties with recruiting and retaining staff in the childcare sector prevail, childcare costs in London will remain higher than the national average. Also the push to improve the qualifications of staff may increase staff costs.

When more information about childcare costs for part-time provision becomes available for London, the Living Wage Unit will improve our estimate of childcare costs in the capital to reflect this information.

7. CONCLUSIONS

The London Living Wage increased by 2.1 per cent this year, to £7.20 per hour. In the two years since 2005, it has increased by 7.5 per cent.

Since our last report, household median income increased by 2 per cent. Benefits and tax credits were increased by 3.6 per cent between the financial years 2006/07 and 2007/08.

⁷ London Development Agency (LDA), press release in April 2006.

This was a larger increase than the previous year's of 2.7 per cent. As a result, benefits and tax credits have done more of the work in getting us to our target standard of living than in the previous year and this has moderated the required increase in wages.

A cross-GLA Group Living Wage implementation group was formed in April 2005 to help coordinate plans for the policy across the GLA Group. In the past year, the Living Wage has been implemented through a phased roll out across the GLA group. Transport for London (TfL) has implemented a substantial procurement programme throughout 2006. Also there has been progress by GLA and LDA in paying the Living Wage to their cleaning and catering staff.

Over the last year, the Living Wage Unit undertook research to increase our understanding of the incidence of low pay in London, looking at the earnings distribution and considering different individual and job characteristics. In the coming year, research will continue in particular to explain the causes of low pay in the capital in the context of the most recent Living Wage figure.

APPENDIX A. DETAILS OF COST CALCULATIONS

This appendix provides the calculation and sources used for the cost data in section 2. As noted in Section 2, costs are considered under five headings that are now considered in detail.

A.1 HOUSING COSTS

Housing costs in London were updated using the same methodology as was applied in the 2005 and 2006 living wage report. We assumed that couples and lone parents with two children live in a three-bedroom property. This is based on the FBU method, which attempts to estimate the rent that a model family needs to pay, in order to obtain access to affordable but adequate housing. This rent will in general be different from the rent that model families are now paying. The latter depends on their earnings, and the availability of appropriately-sized housing.

Data from the Chartered Institute of Public Finance and Accountancy (CIPFA) provides, for each London borough, the average council rent on a three-bedroom property and the number of such dwellings in the council stock. This has been updated using the most recent data. Table A.1 shows the median, weighted mean⁸ and unweighted mean of these rents, covering the majority of London boroughs for 2005.

⁸ The weighted mean takes into account the different number of (three-bedroom) council houses in each borough, and weights the average by this number. The unweighted mean is a simple average of all boroughs for which data is available.

TABLE A.1 MEDIAN, WEIGHTED AND UNWEIGHTED MEAN WEEKLY RENTS FOR THREE-BEDROOM COUNCIL HOUSES IN LONDON IN 2005

	2004	2005
Median	76.57	76.17
Weighted Mean	77.56	78.91
Unweighted Mean	79.86	81.07

Source: CIPFA

Council housing alone, however, does not represent the only source of affordable housing available to such families and therefore, in this report, other social housing is also taken into account. The Housing Association Report provides social rents from the Regulatory and Statistical Returns (RSR) Survey 2005.⁹ The average weekly net rent for three-bedroom other social housing in London is £89 per week at March 2005.

To derive our estimate of the social rent for three-bedroom houses in London, we considered the weighted average of rent for council houses at £81 per week and rent for other social housing at £89 per week. This was weighted by 610,000 council houses in London and 389,000 units of other social housing in 2005 (most recent available data). Therefore, the average overall social housing rent for affordable three-bedroom dwellings in London is £84 per week, up 5 per cent from last year's report.

This figure is used for the housing costs of couples and lone parents with children.

For a single person and for couples without children, it was assumed as in the previous two annual reports that they are more likely to live in private accommodation, since their access to social housing is significantly less likely than for families with children. In last year's report, we used the GLA's database of London privately rented accommodation for November 2005 and applied the assumption that a couple without children will live in a rented one-bedroom house, flat or maisonette, and that a single person will live in a bedsit, flat share or studio flat. In each case the first quartile of the rent distribution has been used as an estimate of typical cost. This yields a typical rental of £150 per week for a couple, and £79 for a single person.

Since the Annual Report of 2006, private rents have declined in the UK and for London they have remained broadly stable. As this may seem unexpected, we checked a further source of information, Rent Office data. This data is available at local authority level in the UK for one single room. In both 2003/04 and 2004/05, the lowest quartiles of London private rents

⁹ Based on the Annual Survey from the Housing Corporation on stockholding and social rents.

were £77 per week.¹⁰ Therefore, in this report we used the same estimates of private housing costs as in the last year's report for couples and for single persons.

A.2 COUNCIL TAX

On the basis of data from the Department for Communities and Local Government (DCLG) the majority of London houses are band D or above.¹¹ This report assumes a band D council rent and calculates, the average council tax band D using DCLG data. This yields a figure of £23.35 per week. This figure represents the council tax for families with children. People living on their own or lone parents, are entitled to a 25 per cent single person's discount. It was assumed that lone parents and single people receive a 25 per cent discount, that is, pay £17.51 council tax each week.

A.3 CHILDCARE

The FBU assesses a standard number of hours of childcare on the basis of family types. This is an average figure throughout the year and takes into account school and other holidays.

As in previous reports, we have assumed that all households with children, where the only parent or both parents work, incur childcare costs. It was also assumed that earners working full-time and part-time require 40.5 and 19.5 hours of childminding respectively paid at the same rate of £5.03 per hour. However, there is evidence that part-time costs per hour are normally higher.

DERIVATION OF CHILDCARE COSTS

The Daycare Trust published its most recent figures on childcare costs in January 2007. These figures are available for Inner and Outer London. To derive London childcare costs, average childcare costs were calculated for both Inner and Outer London. That is, we averaged nursery costs for children under two years old, nursery costs for children two years and over, childminder costs for children under two years old and childminder costs for children two years and over in Inner London from Table A.2. The Inner London average weekly childcare cost was £178.50. The Outer London average childcare cost was £174 per week. Taking the average of these two figures for Inner and Outer London yields the London average childcare cost of £176.25 per week.

To convert average London weekly childcare costs to an hourly figure, it was assumed that on average parents would demand 35 hours of childminding. This is consistent with the FBU methodology applied throughout, which attempts to establish the actual requirement that a family in typical circumstances would have if earnings were adequate, rather than the actual use of child care by families, which may reflect an inability to afford sufficient hours of child care.

This yields an hourly equivalent, for a weekly expenditure of £176.25, of £5.03 per hour.

¹⁰ Author's note: this service was formerly available at:
http://www.therentservice.gov.uk/documents/corporate_publications/TRS-Valuation-Report-BM.pdf.

¹¹ Based on Valuation Office Agency data.

TABLE A.2 WEEKLY CHILDCARE COSTS IN LONDON (£)

	Nursery (under 2)	Nursery (2 and over)	Highest Nursery Cost	Childminder (under 2)	Childminder (2 and over)	Out-of- School Club
Inner London	205	176	330	171	162	29
Outer London	182	158	329	177	179	37

Source: Daycare Trust, 2007

A.4 TRANSPORT

In last year's report, it was assumed that adults bought a monthly travel card for zones 1-3 costing £99.90, which is equivalent to a weekly transport cost of £23.05, obtained by multiplying £99.90 by the factor 12/52. See Table A.3.

In addition, we take account of the Mayor's policy of free travel for children under 18 years (in full-time education), which means that only parents/lone parents¹² incur transport costs within households with children.

In this report, we used 2007 fares for adults buying a monthly travel card for zones 1-3, see table A.3. Since the previous report, transport costs have increased by 5 per cent.

TABLE A.3 TRANSPORT COSTS (£ WEEKLY)

Type of households	2007 living wage report	2006 living wage report
Couples with children	48.60	46.10
Lone parents	24.30	23.05
Couples without children	48.60	46.10
Single individuals without children	24.30	23.05

Source: Based on Transport for London fares 2007

A.5 REGIONAL PRICE DIFFERENTIALS FOR THE STANDARD SHOPPING BASKET

ONS published, in 2003, detailed estimates of price differences between each Government Office Region and the UK average (ONS 2004). From this information, the relative regional prices for each category of expenditure, except for those items already discussed in this appendix, have been calculated.

Since 2003, ONS has not published updated regional price estimates. We therefore used the growth in national prices to adjust each item of London's shopping basket and then applied

¹² The calculation is unaffected by the Mayor's recent decision to introduce free tube travel for under-11s as we have assumed that children in our target families will travel by bus.

these to produce estimates of the total rise in shopping basket costs for the different requirements which the FBU method allocates to different types of families in London.

RISING COSTS SINCE LAST YEAR'S REPORT

Since our last report, some prices of goods and services in London have increased. Table A.4 presents the growth in prices between November 2005 and November 2006 for the different components of the shopping basket. Three quarters of the items included in our shopping basket experienced price increases over this period such as fuel, NHS charges, food, charitable donations, insurance/pension contributions, and household services. Only three items from the shopping basket fell in price over the period.

TABLE A.4 ANNUAL PERCENTAGE GROWTH IN PRICES OF ITEMS IN THE SHOPPING BASKET

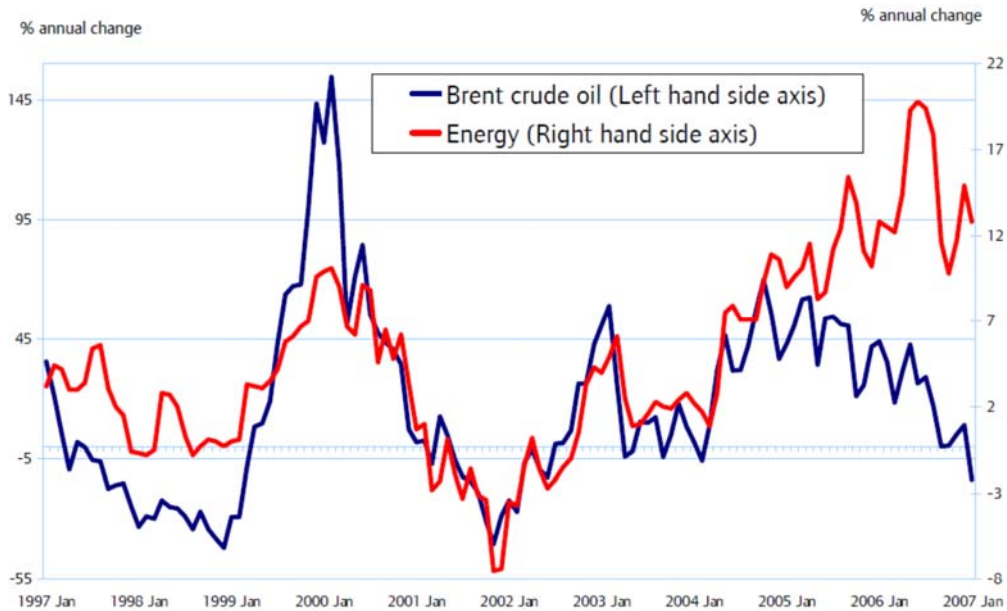
Item	Growth in prices between November 2005 and November 2006
<i>Rising items</i>	
Fuel	11.0
NHS charges	6.0
Food	3.5
Charitable donations	3.5
Insurance/pension contributions	3.5
Household services	3.4
Personal care	3.4
Leisure services	3.0
Pets	2.5
<i>Decreasing items</i>	
Clothing	-3.4
Leisure goods	-3.2
Household goods	-0.7
<i>Not considered *</i>	
Smoking costs	-
Debts/fines/maintenance orders	-
Total shopping basket	2.1

Source: Office for National Statistics (ONS)

Notes: To uprate the cost of each item of the shopping basket we used the average price increase for the three months October to December, unlike last year's report, when we used the annual price increases for November 2005 only.

FUEL COST CHANGES

Chart 1. Brent crude oil and UK energy prices, annual percentage change



Source: ONS and Ecwin

Chart 1 shows the annual percentage changes in Brent crude oil and UK energy prices, for the period Jan 1997 to Jan 2007. Oil and energy prices have tended generally to move very closely in the same direction until Jan 2005. After that the growth in crude oil prices have declined, whereas the annual growth in energy prices have continued to increase until mid 2006, but then has fallen somewhat at the end of 2006. In November 2006, energy prices grew at around 11 per cent, similarly to the annual growth experienced in November 2005. This shows that energy price inflation has not increased further since last year's report, even though it peaked at 20 per cent in June 2006. This is consistent with an annual percentage increase of around 11 per cent in fuel costs observed in our shopping basket.

APPENDIX B: BENEFITS AND TAX CREDITS

This section reviews the main tax credits and benefits that households can receive in the UK, depending on their earnings and circumstances. The methodology used to calculate these benefits for different types of households is explained in detail in Appendix C of the 2005 Living Wage report.

B.1 EARNINGS AND BENEFITS

There are different tax credits and benefits that households are entitled to receive in the UK. These are targeted mainly to help low (and middle) income families. The majority of these benefits are means-tested, with some exceptions such as child benefit.

The main means-tested benefits available to households with someone in work are:

- Working tax credit
- Child tax credit
- Housing benefit
- Council tax benefit

The amount a household receives depends on various factors including annual household income, the number of hours worked, type of household (couple or lone parent), number of children, and age of children. Therefore, there are several elements in each tax credit or benefit to reflect different needs and circumstances of households.

To derive the main benefits for the different types of families in London, we follow the same methodology as outlined in Appendix B of the 2005 Living Wage Report.

The working tax credit has several elements that are applied based on the circumstances of households, as outlined in Table B.1.

TABLE B.1: WORKING TAX CREDIT, 2007/08

Working tax credit elements	Maximum amount £ per year
1. Basic	1,730
2. Second adult/lone parent	1,700
3. 30 hour	705
4. Childcare (per cent of eligible cost covered) 80%	
Maximum eligible cost for one child	
Maximum amount for two or more children	
5. Disability	2,310
6. Severe disability	980
7. If over 50 and previously workless (see below for details)	
If working between 16 and 29 hours per week	1,185
If working over 30 hours per week	1,770

The working tax credit has a childcare element that is given to those households who are working and have children. The childcare element provides 80 per cent of eligible childcare costs incurred up to a maximum of £175 per week for one child. This means that a family with one child can get at most £140 per week from the childcare element. Similarly, families with two children can receive up to a maximum of £240 per week (80 per cent of £300).

Families with disabled members get extra help, being entitled to additional disability or severe disability elements.

Households with a member over 50 years old can receive help depending on the hours worked per week. For instance, if a member of a family (over 50) works between 16 and 30 hours a week this person is entitled to get £22.70 per week and £33.94 per week if they work more than 30 hours. This payment is for one year only and is for people returning to work from the New Deal 50 Plus.

A representative couple, therefore, working more than 30 hours per week, with two children and spending a certain amount in childcare costs will be generally entitled to: the basic element; the second adult element; 30 hour element; 80 per cent of childcare costs incurred (or up to 80 per cent of the maximum £300).

However, the amount received depends on their household income. The next section considers the child tax credit and then details how to calculate the working tax credit, given information on household income.

B.2 CHILD TAX CREDIT

Child tax credit is mainly for families on low (or middle) incomes who are responsible for one or more children, under 16 years old (or a child under 19 who is studying full-time up to A-level). Those entitled to this benefit need to work at least 16 hours a week on average. The household's gross income should be below £50,000.

Note that the child tax credit can be granted in addition to the childcare element of the working tax credit. The main elements of the child tax credit are the family element and the child element (see Table B.2). A family responsible for a child/children is entitled to receive the family element. In addition, a family can get £34.36 per week for each additional child (over one year). If the household has a child under the age of one, then this family will receive the family and baby addition element.

TABLE B.2 CHILD TAX CREDITS, 2007/08

Child tax credit elements	Maximum amount	Maximum amount
	£ per year	£ per week
Family	545	10.50
Child	1,845	34.36
Family and Baby addition	545	10.50
Disabled child	2,440	46.54
Severe disabled child	980	18.50

As with working tax credit, the total amount received in child tax credits depends on the household's total income.

COMMON THRESHOLDS OF HOUSEHOLD INCOME FOR WORKING TAX CREDIT AND CHILD TAX CREDIT

Families with a household income below £100.10 per week are entitled to the maximum amount as shown in Tables B.1 and B.2. Families with a household income above this first income threshold will receive less with their award being reduced at the rate of 37p for every £1 of gross income over this threshold (see Table B.3). This award is calculated using the following formula:

$$\text{Tax credit} = \text{maximum amount of child tax and working tax credits} - 37\% (\text{gross household income} - £100.10)$$

Families with gross household income above £ 958.9 per week will receive an award reduced at the rate of 6.67p for every £1 of gross income over this threshold income.

TABLE B.3 COMMON FEATURES TO DERIVE CHILD AND WORKING FAMILY CREDITS, 2007/08

Common Features	Maximum amount	Maximum amount
	£ per year	£ per week
First income threshold	5,220	100.1
First withdrawal rate (%)	37%	
Second income threshold	£50,000	958.91
Second withdrawal rate (%)	6.67%	
First threshold for those entitled to Child tax credit only	£14,495	283.01

CHILD BENEFIT

TABLE B.4 CHILD BENEFIT, 2007/08

Number of children	Couple
	£ per week
1	18.1
2	30.2
3	42.3
Each extra child above 3	12.1

Note: The 2006 Pre-Budget Report outlines that the distinctive amount of child benefits given to lone parents from next April 2007 will be abolished. They will then receive the same amount as couples.

Child benefit is a universal, non means-tested benefit and is also non-taxable. It is paid for children up to the age of 16 or up to 19 for those in full-time education (up to and including

A level standard). Table B.4 shows the amount couples or lone parents are entitled to receive depending on the number of children they have. There is a higher rate of benefit for the first child of £18.10 per week. For each subsequent child, couples receive £12.10 per week.

B.3 HOUSING BENEFITS

Housing benefit provides help to households in order to pay their rent. Housing benefit is calculated based on the following formula:

$$\text{Housing benefits} = \text{eligible rent} - 65\% (\text{net income} - \text{applicable amount})$$

where:

$$\text{Net income} = (\text{gross income} - \text{tax} - \text{earnings disregard}) + \text{child tax and working tax credits} + \text{child benefits}$$

and

$$\text{Applicable amount} = \text{total personal allowances} + \text{total premiums}$$

The applicable amount represents the minimum income the government thinks a person under a certain situation needs to live on. This is made up of two components: personal allowances and total premiums, depending on the particular circumstances of the household.

To calculate housing benefit it is necessary to take into account the household income and any other benefits received. The amount of housing benefit that a household receives also depends on the eligible rent and council tax paid.

To derive the total applicable amount, information from Table B.5 is used and depends on the size of the family or type of household. For instance, if the family is a couple with two children then they are entitled to receive £93.80 per week personal allowances, and £93.40 per week for both children under 16. In addition, families get the family premium (for couples) of £17.10 per week.

TABLE B.5 HOUSING BENEFITS, 2007/08

	MAXIMUM AMOUNT
	£ per week
Personal Allowance	
Single person (under 25)	47.30
Single person (25 or over)	59.80
Lone parent (18 or over)	59.80
Couple (one/both 18 or over)	93.80
Children	

Under 16	46.70
16-18	46.70
Premiums	
Family	17.10
Family (lone parent)	23.60

B.4 COUNCIL TAX BENEFITS

Single persons and certain other households qualify for a reduction in their council tax. On top of this some households qualify for council tax benefits.

Council tax benefits are granted to households to pay their council tax, mainly targeted at those on low income. The benefit is calculated as follows:

$$\text{Council tax benefit} = \text{council tax} - 20\% (\text{net income} - \text{applicable amount})$$

where: net income and applicable amount are the same as that described above in the section on housing benefits.

APPENDIX C: DIFFERENCE BETWEEN LCA BUDGET STANDARD AND DISPOSABLE INCOME AT DIFFERENT HOURLY WAGES

This appendix sets out the difference between basic living costs and income approaches at different hourly wages. Table C.1 includes all relevant benefits and tax credits in the calculation for the first approach. Table C.2 excludes all means-tested benefits from the calculation.

TABLE C.1 WEEKLY EARNINGS, TAXES, BENEFITS, DISPOSABLE INCOME AND COSTS FOR DIFFERENT HOURLY WAGES INCLUDING ALL APPLICABLE TAX CREDITS AND MEANS-TESTED BENEFITS

	Two parents with two children				Single parent		Couple no children				Single person	
	2ft	1ft 1pt	1ft	1pt	ft	pt	2ft	1ft 1pt	1ft	1pt	ft	pt
Hourly wages												
5.35												
Total disposable income	588.8	461.4	350.0	341.1	488.7	345.3	352.6	291.5	271.5	251.7	196.4	176.6
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9

Total disposable income minus LCA costs	45.6	23.9	34.9	25.9	19.5	-18.2	20.6	-40.5	-36.3	-56.0	-7.5	-27.2
6.00												
Total disposable income	603.8	471.5	351.2	342.0	496.2	350.4	386.1	297.5	274.1	252.6	197.8	177.6
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	60.6	33.9	36.0	26.8	27.0	-13.1	54.1	-34.6	-33.7	-55.1	-6.1	-26.2
7.00												
Total disposable income	626.9	491.9	352.9	343.3	507.7	359.2	437.7	331.5	278.1	254.0	218.9	179.9
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	83.7	54.3	37.7	28.1	38.6	-4.3	105.7	-0.5	-29.6	-53.8	15.0	-23.9
8.00												
Total disposable income	650.0	512.2	356.9	344.6	519.3	368.1	489.3	372.5	282.2	255.3	244.7	182.2
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	106.8	74.7	41.8	29.5	50.1	4.5	157.3	40.4	-25.6	-52.5	40.8	-21.7

Source: GLA Economics' own calculations

TABLE C.2 WEEKLY EARNINGS, BENEFITS, DISPOSABLE INCOME AND COSTS FOR DIFFERENT HOURLY WAGES, INCLUDING ONLY NON-MEANS -TESTED BENEFITS

	Two parents with two children				Single parent		Couple no children				Single person	
	2ft	1ft 1pt	1ft	1pt	ft	pt	2ft	1ft 1pt	1ft	1pt	ft	pt
Hourly wages												
5.35												
Total disposable income	382.8	297.5	206.5	121.2	206.5	121.2	352.6	267.3	176.3	91.0	176.3	91.0
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	-160.4	-140.1	-108.7	-194.0	-262.6	-242.4	20.6	-64.8	-131.5	-216.8	-27.5	-112.9
6.0												

Total disposable income	416.3	320.8	223.3	127.7	223.3	127.7	386.1	290.6	193.1	97.5	193.1	97.5
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	-126.8	-116.7	-91.9	-187.4	-245.9	-235.8	54.1	-41.4	-114.7	-210.2	-10.8	-106.3
7.0												
Total disposable income	467.9	361.7	249.1	142.9	249.1	142.9	437.7	331.5	218.9	112.7	218.9	112.7
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	-75.2	-75.8	-66.1	-172.3	-220.1	-220.7	105.7	-0.5	-88.9	-195.1	15.0	-91.2
8.0												
Total disposable income	519.5	402.7	274.9	158.0	274.9	158.0	489.3	372.5	244.7	127.8	244.7	127.8
LCA Costs	543.2	437.6	315.2	315.2	469.2	363.5	332.1	332.1	307.8	307.8	203.9	203.9
Total disposable income minus LCA costs	-23.7	-34.9	-40.3	-157.2	-194.3	-205.5	157.3	40.4	-63.1	-180.0	40.8	-76.0

Source: GLA Economics' own calculations

Table C.3 presents the wage level that different types of families require to achieve 60 per cent of median income, 65 per cent of median income and 70 per cent of median income. These calculations include means-tested benefits and tax credits.

TABLE C.3 WEEKLY INCOMES FOR DIFFERENT TYPES OF FAMILIES (£, 2004/05) INCLUDING BENEFITS IN THE MEASURE OF DISPOSABLE INCOME

Household type	Weekly income	Required hourly wage rate		
		2ft	1ft 1pt	1ft
60% of median (Relative poverty measure)				
With two children aged 2-4 and 8-10				
1) Couple parents	257.18	5.35*	5.4	8.7
2) Lone parent	175.10	N/A	N/A	5.35*
With no children				
1) Couple	182.40	5.4	7.6	12.3

2) Single person		100.32	N/A	N/A	5.6
65% of median					
With two children aged 2-4 and 8-10					
1) Couple parents		278.62	5.4	6.6	10.6
2) Lone parent		189.70	N/A	N/A	5.9
With no children					
1) Couple		197.6	5.7	8.0	12.9
2) Single parent		108.68	N/A	N/A	6.5
70% of median					
With 2 children aged 2-4 and 8-10					
1) Couple parents		300.05	6.3	7.7	12.4
2) Lone parent		204.29	N/A	N/A	7.2
With no children					
1) Couple		212.80	6.0	8.3	13.5
2) Single person		117.04	N/A	N/A	6.8

Source: GLA Economics' own calculations

Similarly, Table C.4 shows the wage levels in the income distribution approach as above, but including only non-means tested benefits.

TABLE C.4 WEEKLY INCOMES FOR DIFFERENT TYPES OF FAMILIES, (£, 2004/05), INCLUDING ONLY NON-MEANS -TESTED BENEFITS IN THE MEASURE OF DISPOSABLE INCOME

Household type	Weekly income	Required hourly wage rate		
		2ft	1ft 1pt	1ft
60% of median (Relative poverty measure)				
With two children aged 2-4 and 8-10				

1) Couple parents		257.18	8.9	9.6	11.5
2) Lone parent		175.10	N/A	N/A	>15
With no children					
1) Couple		182.40	5.4	7.6	12.3
2) Single person		100.32	N/A	N/A	6.1
65% of median					
With two children aged 2-4 and 8-10					
1) Couple parents		278.62	9.4	10.1	12.3
2) Lone parent		189.70	N/A	N/A	>15.0
With no children					
1) Couple parents		197.6	5.7	8.0	12.9
2) Single parent		108.68	N/A	N/A	6.5
70% of median					
With 2 children aged 2-4 and 8-10					
1) Couple parents		300.05	9.8	10.7	13.1
2) Lone parent		204.29	N/A	N/A	>15.0
With no children					
1) Couple		212.80	6.0	8.3	13.5
2) Single person		117.04	N/A	N/A	6.8

Source: GLA Economics' own calculations

ABBREVIATIONS

APS	Annual Population Survey
ASHE	Annual Survey of Hours and Earnings
CIPFA	Chartered Institute of Public Finance and Accountancy
DCLG	Department for Communities and Local Government
DWP	Department for Work and Pensions
FBU	Family Budget Unit
GLA	Greater London Authority
LCA	Low Cost but Acceptable
LDA	London Development Agency
LFS	Labour Force Survey
NES	New Earnings Survey
ODA	Olympics Delivery Authority
ONS	Office for National Statistics

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